LIVESTOCK COOPERATIVE NEEDS FOR 1975

By
R. L. Fox, Chief
Livestock and Wool Branch
Farmer Cooperative Service
U. S. Department of Agriculture
Washington, D. C.

Presented at A.I.C. Session on
Livestock Marketing

August 10, 1965
1:30 - 4:00 p.m.

LIVESTOCK COOPERATIVE NEEDS FOR 1975

by R. L. Fox*

Predicting the needs of livestock cooperatives for 1975 is hazardous indeed at best. Ten years from today is a relatively short time. However, we know from the past that many changes can take place in such a short period.

In 1915 we had no livestock marketing cooperatives of any importance. By 1925 a number of strong associations were organized at terminal markets with many supporting shipping associations. Then 1935 saw the death of many of the old local shipping cooperatives and the addition of several central market cooperatives. A few decentralized organizations also began showing up and direct marketing was starting to by-pass all the old established marketing channels.

World War II slowed the impact of many changes made before 1945. However, marketing continued to change and cooperatives adjusted their operations to meet the times. These cooperatives in the past were pacesetters in bringing about improvements in business ethics, operating practices, and services which all of us now take for granted. They helped to encourage selling of all livestock by weight on tested scales, marketing by grades, lowering of commission rates, guaranteed payment for livestock by adequate bonding and many other things to help protect the farmer.

Now after almost a half century of effective operation, we see that cooperative livestock marketing needs further changes. The pressure of a rapidly changing livestock industry may stimulate faster adjustments in the future to meet the needs of livestock producers.

What Are Some Needs For 1975?

It's easier to rock along without changing and I think this applies to many livestock cooperatives today. They are about maintaining their position in terms of total volume handled and meeting the payroll, with possibly a little savings to place into the patrons' equity fund.

However, many associations are not maintaining their proportion of the livestock marketed in the trade area and thus must determine to do something to change the situation.

The needs become more apparent when we look at some of the things taking place in todays United States. We are expected to have about 230 million people by 1975. It is also expected that we will have over a million fewer but larger farms than we do today. Also, a projected Gross National Product of $1 trillion means higher incomes and a greater demand for meat.

---

*Chief, Livestock and Wool Branch, Farmer Cooperative Service, U. S. Department of Agriculture, Washington, D. C.

Presented at the Livestock Section Program, American Institute of Cooperation, Columbia, Missouri, August 10, 1965.

By 1975, farms will be larger and capable of producing much more livestock. These farms, however, will need to produce increasing numbers of livestock to feed the population if we continue to consume at the increasing rates established during the last few years. We can see important changes in production and concentration of control of larger quantities of livestock into fewer hands. These alone change the needs for cooperative livestock marketing organizations.

The following needs are some that deserve attention, considerations, research, and changes to strengthen and preserve cooperatives:

1. Need to Improve Bargaining Power

   Cooperatives will need to control and market larger percentages of the total livestock sold to gain effective bargaining power. Individual livestock marketing cooperatives may control as much as 25 percent to 35 percent of the total livestock delivered to a particular market. But the organization will still be able to supply only a small portion of the slaughter requirements of a large plant handling 5000 hogs or 1500 cattle daily.

   The inability to control sufficient numbers of livestock is magnified when the buyers specifications are rigid. For example, they often want choice steers within a relatively narrow weight range of 1100-1150 pounds live weight.

   A cooperative marketing over 2 million head of livestock annually now operates in one section of the country. There is no question that this cooperative exerts some effect on livestock prices locally. How much effect it has on establishing prices on a national or even a local basis is questionable, especially when the volume handled must be divided between the different species and many classes of livestock and then between a multitude of weights and grades.

2. Help Guide Production

   Cooperatives will need to become more involved in guiding production practices. Cooperatives will need to exercise more influence over production on members' farms to have the desirable kind of animals to market. Although growers have made tremendous progress, livestock production is still highly complicated. Improvements in breeding and feed conversion will no doubt outstrip the best performances we have seen to date. However, we may be near a break-through in production of larger animals that will give us results that the poultry people have experienced. If we accomplish great strides in production, what do we do about marketing? These problems will likely become increasingly complex. We must confess that marketing methods have changed little. Most of the changes have been adding some additional services to age-old methods.

3. May Need To Add Services

More services will be demanded by producers as they become larger and more specialized. I recognize that today we fuss about livestock producers not being willing to pay for the services now available from the existing cooperatives. This, too, is in a state of change and as the livestock grower and feeder become larger, more specialized and more sophisticated, he will pay for services that will make him money.

This is becoming evident today among the larger producers of many other commodities. They are willing to pay for advice if it results in a substantial return on a particular enterprise. What these services must be can challenge the best operators. I venture to suggest that some of the services which you will need to render in 1975 are unheard of today.

As cooperatives add other services they will take on the aspects of management consultants as well as being active in the transfer of livestock from the producers to a first buyer.

The services needed by the various size producers will vary. It is evident that smaller livestock growers require services that may be almost totally different than those demanded by the larger stockman. It behooves all cooperatives to determine if they can provide services to best serve livestock producers of varying size. However, some of the accepted services now performed by cooperatives for their members may need to be eliminated.

4. How Many Markets?

It is almost a universal opinion that there are too many people in marketing of livestock to build strong bargaining power. The Packers and Stockyards Division, Consumer and Marketing Service, USDA, supervises 2,250 posted stockyards, 17,000 registered market agencies and dealers, and 3,300 meat packers. If these were the only ones engaged in buying and selling the problem would be less complicated than it is today. However, in addition to these we must add many farmers and feeders who do their own marketing.

It is impossible to compute the marketing bill that livestock growers and feeders must bear because of the many people involved in the marketing process. The number of animals that one agency markets is too small to exert much bargaining power. Livestock marketing cooperatives, as a group, handle a greater percentage of the total livestock sold than any other agency. When you divide this by more than 400 associations engaged in marketing, however, the numbers become small.

5. Competition

Members now look to their livestock cooperatives to seek ways to provide a more effective marketing system. Many of the non-cooperative agencies have reached the point that they provide as many services as the cooperatives. Then what is the need for a cooperative? The idea can be repeated and repeated that the cooperative looks out for the farmer. However, the farmer is convinced only when he can see tangible benefits usually dollars and cents in his pocket book.

Competitors now furnishing similar services as cooperative marketing associations are not going to continue on the same level. They will either cease to operate or expand. The same will be true of cooperatives. At this time, livestock marketing cooperatives are about the only businesses that are adding more market units at the local level. This may have about reached the saturation point because of the high cost of providing market facilities that handle only a small number of livestock. The cost factor and more livestock moving direct from farms to slaughter--processors could eliminate the need for many markets. Competition will probably follow the lead of farm supply firms. They will shoot for higher volume with less margin. Cooperatives are in on the ground floor and should be able to adjust their operations in the interest of members.

6. Study Present Marketing Methods

The present methods of marketing need to be studied by cooperatives. It will be necessary to determine which type will be the best to serve the livestock producer in 1975. None of us have been willing to face this problem but tend to say we try to satisfy the member and his wishes.

Cooperatives are caught in the web of pressure by members for more market outlets in the heavy producing areas. Despite the need to build stronger and fewer market outlets we will probably have more before the industry is forced by the realities of economics to add other facilities. Cooperatives need to determine if market facilities can really pay their way before their members tie up capital in such facilities.

The pressure to find adequate answers to costs and benefits of the various methods has not been severe enough to resist those who now defend one type over another. The question should be asked, "Are existing cooperatives really in a position to bargain or do they merely act as an agent in offering each individual's livestock for sale?" We have observed the peaks of several methods and are observing declines in others.

I believe in the great freedom of choice, but I do not believe that the livestock producer or his cooperative can continue to offer as many choices in the years ahead. If they do others may be furnishing a more attractive specialized service.

7. New Livestock Production Areas

Cooperatives are needed in areas where livestock production is increasing. There is definite expansion in livestock production in the South and Southeast region. Few livestock cooperatives have been organized in this territory. Several Midwest cooperatives secure stocker and feeder animals from these sections. The methods used are to send an employee to the region or to purchase through a dealer.

It seems that the establishment of good cooperatives in the South could help both the local livestock producer and the Corn Belt feeder. The need is present and it appears that much of the increased supply of feeder calves needed must originate in the Southeast. There are other isolated spots where the need for cooperative livestock markets may become apparent, especially if livestock production increases enough to justify a facility and growers exhibit a demand for it.

8. Need to Cope with Increased Direct Buying

If any resemblance to our present system of marketing is to be preserved, cooperatives will need to learn how to deal with direct buying. Present figures show that about 45 percent of the cattle, 61 percent of the hogs, and 56 percent of the sheep now move direct from farms and feedlots to slaughterers. I would not imply that direct marketing is bad. Many people must think that they are benefited or they would not market in this manner. I do believe, however, that we lack sufficient information for every producer to become a qualified marketing expert. There is a definite need to provide the direct marketing service from farms and feedlots by cooperatives if they are able to increase the returns of the producer. Cooperatives have engaged in various forms of direct marketing, but most experiences have shown that it is difficult to negotiate successfully and to the satisfaction of all concerned. The producer or the packer generally arrives at the conclusion that he can make the sale or purchase at less cost. Marketing associations must find where the faults lie and how to become expert salesmen in selling livestock wherever it is offered.

9. Meet Changing Methods on Terminal Markets

I am not going to predict whether terminal markets will still be in existence 10 years from today. But I am sure that they will be operating much differently from the way they are today if the past 10 years' history is any guide.

If they decline or go to the auction method of selling livestock, then the cooperatives should ask seriously if their services are going to be needed. The increasing movement of slaughter plants closer to areas of production should encourage cooperatives to represent their membership there. It is doubtful if farmers will continue much longer to haul livestock into a congested area and slaughterers haul it outside to their newly located plants.

With the location of plants closer to production, it is only natural for slaughterers to set up a procurement program to purchase much of their requirements at the plant or through their own buying station.

At present cooperatives are not represented in this type of marketing and buying. There must be a place for farmers' organizations to serve under these conditions and it offers a big challenge on how to negotiate in the marketing of livestock.

10. Carcass Grade and Yield Marketing

This is one of the most discussed, misunderstood methods of selling livestock that I know about today. Far too many people get this method confused with consignment marketing where livestock is turned over to packers and returns are based on sale price of carcass less operating expenses of the packer.

When grade and yield marketing is based on sound principles, and all the qualifications are known to both buyer and seller, it appears to be a satisfactory marketing method for people wishing to sell on a merit basis. However, it is true most of the transactions in grade and yield selling lack uniformity of practices between different packers operating in various sections of the country. Cooperatives and their members have exhibited some interest in this marketing method. It seems to me that more attention on how farmers can be confident that this way of selling livestock is operating properly is dependent upon cooperatives.

I give credit to the work that National Livestock Producers Association at Chicago and some of its member cooperatives are doing in this field in an effort to determine more equitable bases for rewarding for quality production. Despite all the criticisms and faults of this method, we can expect more grade and yield marketing in the years ahead. I am hopeful that cooperatives will refine the system and be the farmer representatives who see that both seller and purchaser are giving and receiving a fair deal.

11. Livestock Cooperatives Need Slaughtering and Processing Plants

Since we have to admit that purchasers have more information regarding the true value of livestock than salesmen, it appears logical that livestock people through their cooperatives need slaughtering and processing plants. I am not advocating that cooperatives gain control of the majority of the meat packing industry. To have sufficient data to price livestock accurately, ownership, control or good working relationships of and with meat plants are imperative.

This is increasingly important since more sales are made outside of terminal and auction markets where it is more difficult to record prices and sales conditions. It will become necessary for the salesman to know as much about the true value as the purchaser in making a sale if he is to make effective sales.

The day may be fast disappearing when estimation of grade, limited knowledge of available supply, and yesterday's prices at some other market are useful in marketing livestock.

Cooperatives should be the ones that use every tool at their command. The limited information received from slaughtering and processing facilities have assisted cooperatives in the past. I am confident it will be more valuable in the future.

12. Coordination Between Existing Cooperatives

We see evidence of marketing agencies working together in some regions. This has become an accepted practice in areas where ample supplies of stocker and feeder cattle are available to sell to Corn Belt feeders. The cooperatives assemble and fill orders and work together. This and similar working relationships will need to be expanded.

13. Mergers, Consolidation and Acquisition

Some cooperatives have used the tools of mergers, consolidations, and acquisitions quite effectively, and more will need to consider them to build marketing agencies that can become strong bargaining agents. This will provide a way to eliminate some of the competition between cooperatives that we often find is as vicious as between cooperatives and non-cooperative selling agencies.

14. Need to Change Organizational Structure

The cooperative organizations have served well as marketing agents in many cases. The stage has been reached when it must be decided if changes can be made to achieve more effective marketing practices. Most of the existing cooperatives are nonstock or limited stock associations. In the years ahead the capital requirements necessary to do a better job of marketing are going to require much larger sums of money to perform services. In order for cooperatives to maintain control of livestock in all the marketing channels, they will need to supply credit to farmers for the producing and feeding of the animals. The amount of capital required to do this will be enormous but it appears whoever controls the credit will control marketing and perhaps all the other steps.

15. Integrating of Production, Marketing, Slaughtering and Processing, and Distribution

We have all kinds of opinions on integration as it affects livestock marketing. Because so many facets and ramifications are involved when this subject is mentioned, I only cite it as another important area in which cooperatives must determine if they have a place. Livestock cooperatives are late comers in this field, but they may be in the forefront by 1975.

I do not see how cooperatives can stay out of integration and gain greater control of livestock at all levels from production to the distribution to the consumer. If outright facility ownership by farmers is not the road to be followed, then livestock cooperatives will need control by contracts, leases, and custom arrangements, etc.

The increasing specialization in all segments of agriculture makes the need greater for cooperatives to engage in all phases of integration--production, marketing, slaughtering and processing, and distribution. Livestock associations should determine how they can provide, operate and regulate these and other off-the-farm enterprises to perform valuable services for their farmer members.

There are certainly indications that feed manufacturers, equipment dealers, meat packers, chain stores and others are showing increased interest in feedlots and related operations in the integration field. If cooperatives do not provide capital, markets and services, others will do so.

16. Management

The need for good management will be even more important in 1975 than it is today or was in the past. The management, including directors and operating personnel, must consist of men with broader experiences than in most organizations in order to cope with the problems of bigger and more complex organizations.

Cooperatives will need to train employees more rapidly or compete with industry to obtain men capable of long range planning to implement both short and long range goals. The fewer marketing organizations competing with cooperatives will be staffed by the best money can buy.

Latest management techniques and tools must be considered and incorporated into the cooperatives' organizational structure. The use of Automatic Data Processing is limited among today's livestock marketing associations; however, there are many places for this to be of benefit.

Tentative figures show that the adoption of ADP equipment could save more than the margin secured from commissions. In addition, ADP would provide much more information readily such as a memory on each members production and feeding operations. Cooperative personnel have been

capable but we find that even in livestock marketing machines can do something as well as or better than people and do it at lower costs. As livestock cooperatives grow in size the use of ADP will become more useful.

17. Total Cooperation Necessary

By total cooperation I mean that livestock marketing organizations will need to become cooperatives that have little or no special allegiance to locality, farm group, or a particular kind of market practice. The fact that there will be fewer cooperatives marketing livestock serving fewer producers, wider territories and selling to fewer buyers makes it necessary for them to become more cosmopolitan.

Because of the larger cooperative, fewer livestock producers, fewer market outlets, (slaughterers), and fewer distributors it will become imperative to become more willing to work with all segments of agriculture with the true cooperative spirit.

Summary

Livestock marketing cooperatives will change and make some drastic adjustments by 1975. If they study the needs and changes necessary to serve livestock producers they will increase in strength sufficient to be a force in obtaining better prices and to be pace-setters for adopting new practices, marketing methods, and newer organizational structure.

The realization of the overall management and farmer members of cooperatives will be such that needs will be met or livestock cooperatives will cease to exist. We need not feel bad that 10 years' time may bring almost a new concept to cooperative livestock marketing organizations.

None of us wish for the same kind of agriculture that existed 50 years ago and few would admit that we can continue to support the kind of livestock cooperatives which we have today. But change and adjustment should help livestock producers regulate changes for their benefit.